The Annual Audit Letter for Lancashire County Council

Year ended 31 March 2020

7 April 2021

Contents

Your key Grant Thornton team members are:

Paul Dossett
Key Audit Partner
T: 020 7728 3180
E: Paul.Dossett@uk.gt.com

Stuart Basnett
Manager
T: 0151 224 7232
E: Stuart.H.Basnett@uk.gt.com

Fay Woodmass
Assistant Manager
T: 0161 953 6954
E: Fay.A.Woodmass@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire County Council (the Council) and its subsidiaries(the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Risk and Governance Committee as those charged with governance in our Audit Findings Report on 25 January 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £27.124, which is 1.25% of the group's prior year gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 5 March 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 5 March 2021.
Certificate	We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Working with the Council

Restrictions for not essential travel has meant that both Council and audit staff have had to adapt to the challenges of new remote working arrangements to carry out the audit, for example remote accessing financial systems, video calling, physical verification of assets and completeness of accuracy of information produced by the entity.

Meetings have been held virtually using Microsoft teams with Senior Officers, regularly throughout the audit and we have attended the virtual Audit, Risk & Governance Committee meetings throughout the year.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
April 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £27.124m, which is 1.25% of the group's prior year gross cost of services. We determined materiality for the audit of the Council's financial statements to be £27.120m, which is 1.25% of the Council's prior year gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £0.015m due to the sensitivity of disclosures in this area.

We set a lower threshold of £1.356m, above which we reported errors to the Audit, Risk and Governance Committee in our Audit Findings Report.

Pension Fund Materiality

For the audit of the Lancashire County Pension Fund financial statements, we determined materiality to be £84m, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund financial statements are most interested in the value of assets available to fund pension benefits.

We set a lower threshold of £4m, above which we reported errors to the Audit, Risk and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • engaged the use of an auditor experts for asset valuations	Our audit work has not identified any issues in respect of the Covid-19 risk. We have drawn the attention of users of the statement of accounts to the inclusion of a material uncertainty regarding the valuation of the Council’s land and buildings by means of an emphasis of matter in our audit opinion. This is as detailed in relation to our response to the significant risk of the valuation of land and buildings.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions

Valuation of land buildings and investment property
The Council revalues its land and buildings on a rolling three year cycle. Investment properties are revalued annually.
These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.
Additionally for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.
	As part of our audit work we have:
	• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• Evaluated the competence, capabilities and objectivity of the valuation expert;
	• Discussed with and wrote to the valuer to confirm the basis on which the valuation was carried out;
	• Engaged our own valuer expert, Wilks Head Eve, to provide commentary on:
	    • the instruction process in comparison to requirements from CIPFA, International Financial Reporting Standards (IFRS) and Royal Institution of Chartered Surveyors (RICS) ; and
	    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points;
	• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• Created an expectation of valuation movements based upon Gerald Eve market index data and compared to the actual valuation movements recorded;
	• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
	• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
		The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer and disclosed by the Council within note 3 to the financial statements, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.
		The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the Council's valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation and accounting for the £350 million UK MBA bond loan The Council in March 2020 was the first Council in the UK to secure loan financing through the UK Municipal Bonds Agency (UKMBA). This was an alternative to the current methods of borrowing, for example from the Public Works Loan Board (PWLB) and other local authorities. The Council has provided a sole Council guarantee for the £350 million issue of bonds over the 5 year term. UKMBA are the issuer of the Bond and it is listed on the London Stock Exchange. Management need to consider the terms of the agreement of these loans and make judgements as to the appropriate accounting and disclosure treatment.	As part of our audit work we have: • assessed management's processes and assumptions for identifying critical judgements • discussed with management the basis on which the valuation and accounting was carried out, including advice received from treasury management advisers and legal advisors • considered the governance framework in relation to the Bond financing • reviewed the accounting and narrative disclosures within the financial statements in relation to the loan including the Narrative Report.	Our audit work has not identified any issues in respect of this risk.
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • Evaluated the design effectiveness of management controls over journals; • Analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing; • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any issues in respect of this risk.
Revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.	Our audit work has not identified any issues in respect of this risk.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that. quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate, management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the Fund’s ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • considered the Fund's latest risk register to identify risks arising from Covid-19 • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic including management’s assessment of the impact of Covid-19 upon employer covenants and forecast cashflows • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence can be obtained to corroborate management’s fair value hierarchy disclosure • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property, and • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	Our audit work has not identified any issues in respect of the Covid-19 risk. We have drawn the attention of users of the statement of accounts to the inclusion of a material uncertainty regarding the valuation of the Fund’s directly held property by means of an emphasis of matter in our audit opinion. This is as detailed in relation to our response to the significant risk of the valuation of level 3 pooled and level 2 directly held investment properties.

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor. We therefore identified management over-ride of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence, • gained an understanding of the control environment in the pool Local Pensions Partnership (LPP) from the internal audit reporting during the year, and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any issues in respect of management override of controls.

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period • where available reviewed investment manager service auditor report on design effectiveness of internal controls • reviewed any transfers to the Pool for any level 3 investments during the year	Our audit work has not identified any issues in respect of the risks relating to the valuation of Level 3 investments as at 31 March 2020.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the group's financial statements on 5 March 2021.

Preparation of the financial statements
The group presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the group's Audit, Risk and Governance Committee on 19 October 2020, with a follow up report at the 25 January 2021 Committee meeting.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in July 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 5 March 2021.

Pension fund accounts
We gave an unqualified opinion on the pension fund accounts of Lancashire County Pension Fund on 5 March 2021. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit, Risk and Governance Committee on 19 October 2020 and updated them on 25 January.

We did not identify any significant issues or adjustments during our audit.

Other statutory powers
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not use any of these additional powers during 2019-20.

Certificate of closure of the audit
We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall, due to the significant level of reserves held by the Council, it is likely one of the better placed authorities to survive the challenges faced in respect of local government finances and the financial impact of Covid-19. We believe the significant risk of financial sustainability is mitigated.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk
Financial sustainability The Council's Medium-Term Financial Strategy (MTFS) 2020/21 to 2023/24 updated in February 2020, shows a cumulative funding gap between 2021/22 and 2023/24 of £33 million. The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS. Significant savings plans have been in place at the Council, and the reliance upon reserves to balance the budget has decreased since 2018/19. The Council's 2019/20 budget required £10 million from reserves. The 2020/21 budget assumes a nil call on reserves. The 19/20 financial year ended with an underspend of £1.7m. The need to deliver the agreed savings and close the funding gap in the MTFS, represents a significant challenge for the Council. The implications of the Covid-19 pandemic on the Council in terms of the financial impact and the savings are currently being reviewed. We will particularly focus on the impact of Covid-19 on the 2020/21 budget and beyond.. To date the Council has received £56m in emergency support from Government . A further funding package was announced in July 2020 to support income losses, but the precise details of how it impacts on the Council will need to be worked through. We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. This will include the consideration of Brexit in the Council's planning processes. We will also consider the arrangements in place to monitor the identification, pace, delivery and reporting of savings. This work is part of the sustainable resource deployment sub-criteria.	**2019/20 Financial outturn** In a year where March saw the outbreak of the Covid-19 pandemic, the Council has performed well to achieve a breakeven position for its service area budgets. The Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but there will be a larger impact on 2020/21. The outturn for 2019/20 highlights the effective management action taken to address the pressures throughout the year. The final position at the end of the year is net expenditure of £800.5m, which represents an in-year underspend of £1.7m (0.22% of the revenue budget). The revenue position includes a level of support from reserves that had previously been agreed (£10.2m) which covered the funding gap, and if this support had not been available then expenditure would have exceeded income by £8.5m. The most significant areas of over and underspend in 2019/20 were Adult Social Care which had a £24.930m overspend (7.2%), primarily as a result of under delivery of savings and financial support being provided to two of the local Clinical Commissioning Groups (CCGs). This was largely offset by the £22.888m underspend within Treasury management due to the gains arising from the sale of gilts and bonds resulting from the significant volatility of the market. **2020/21 Budget and beyond** The Council's Medium-Term Financial Strategy, set in 2019/20, covering the period 2020/21 to 2023/24, was based on a number of assumptions due to the ongoing and unprecedented uncertainty in relation to future local government funding – after review of the key assumptions the "most likely" scenario was adopted within the MTFS. The overall position over the 4-year period indicates a structural deficit of £33.312m by 2023/24, which varies in size over each of the 4 years of the forecast. Alongside this, the agreed 2020/21 budget did not include any use of reserves, and so following commitments of £2.9m, this would leave a forecast of circa £150m available within the Transitional Reserve to support the financial gap in 2021/22 and beyond. Our initial review of the key assumptions adopted for the MTFS and the process adopted by the Council found that the approach adopted by the Council was reasonable and that prudence was applied in the adoption of the assumptions. However, as a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21 and beyond. The magnitude of the pressures will depend on the severity and length of the pandemic.

Value for Money conclusion

Value for Money Risks - continued

Risks identified in our audit plan	How we responded to the risk
Financial sustainability	**2020/21 Budget and beyond – continued** The Council provided a financial impact assessment of Covid-19 to the August Cabinet meeting and has since updated the assumptions within the MTFS to account for the impact of Covid-19 based on the best available information to date. This provided an update to the previous MTFS (from Feb 2020) which showed a deficit of £38.4m in 2023/24. The forecast now indicates a financial deficit of £79.3m by 2023/24 as a result of adjusting the forecast for the impact of Covid-19 and updated assumptions. The main reasons for the changes to the position are as follows: • The current forecast collection fund deficit of £30m for 2020/21 which, after the Local Government Secretary announcement on the 2nd July of a proposal for a phased repayment of council tax and business rates deficits over 3 years, leads to an in-year pressure of £10m for each of years.. • Removal of the historic collection fund surplus forecast of £3.75m per annum. • An assumed zero tax base increase for 2021/22 as a result of Covid related disruption to housing development with consequent decrease in funding available of £9m. With pre-Covid growth of 1.7% per annum assumed thereafter. • The reflection of the latest Office for Budget Responsibility forecast for the increase in National Living Wage which has an impact on the cost of provision of commissioned adult social care. • Following a review of current activity, updated demand and volume assumptions in line with Office for National Statistics (ONS) population statistics. • The pay award for 2020/21 likely to be agreed at higher than the 2% budgeted level. The overall position over the 3-year period indicates a structural deficit of £52.2m in 2021/22 rising to an aggregated deficit of £79.3m by 2023/24, assuming no additional government financial support in those years. The ongoing financial pressures suggest that without significant high-level intervention as a result of the recently announced Comprehensive Spending Review, action will need to be taken to reduce net expenditure to meet the potential funding gap for 2021/22 and beyond. To address the forecast pressure officers, working with partners, are developing an evidence base and narrative to influence the forthcoming Comprehensive Spending Review. The Council will also be looking to maximise efficiencies across services and commence work to identify potential savings given that the Spending Review is being conducted amid the extreme financial uncertainties driven by the continue impact of the Covid 19 pandemic.

Value for Money conclusion

Value for Money Risks - continued

Risks identified in our audit plan	How we responded to the risk
Financial sustainability	**2020/21 Budget and beyond – continued** The Council continues to maintain reserve levels much above those of its peers, but it is recognised that of the £467m total useable reserves, £134m relates to reserves built up to help to finance the Council's capital expenditure plans. Further, the County Fund is maintained at 3% of the net budget and is set aside to cover the authority against a serious emergency situation (e.g., widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. The main reserve held by the Council for the purpose of supporting forecast funding shortfalls in future year budgets is the Transitional reserve which was £151m as at 31 March 2020 and is forecast to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24. However, the Council must carefully consider the use of its reserves to support revenue shortfalls as it is a non-recurrent source of funding and use of reserves on a large-scale risks creating structural overspends if the Council's finances do not recover quickly and income is reduced long term. From an audit point of view, the Council has managed its revenue reserves in a way that makes it better placed than most councils to survive the challenges of the Covid-19 pandemic from a financial perspective. This prudent approach to reserves must be continued to address the risk of future pandemics, recessions and other issues or events that may impact on the Council's financial sustainability.

CONCLUSION

Auditor view

Overall, due to the significant level of reserves held by the Council, it is likely one of the better placed authorities to survive the challenges faced in respect of local government finances and the financial impact of Covid-19. We believe the significant risk of financial sustainability is mitigated.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	27 July 2020
Audit Findings Report	19 October 2020 and 25 January 2021
Annual Audit Letter	26 April 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	111,856	128,356	96,006
Audit of Pension Fund	31,310	36,000	27,810
Total fees	**143,166**	**164,356**	**123,816**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £113,316 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	9,350
Increased FRC challenge and reduced materiality	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. We have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.	7,500
Covid 19 – Additional Risk	We have added a new significant risk for Covid-19 and are required to do additional work as a result.	2,500
New £350 million bond with UKMBA	Note that PSAA's original scale fee for this contract was set in March 2018, since that time the Council has entered a bond in March 2020 with UK MBA and additional work will be required for the valuation and disclosure requirements in the financial statements.	2,000
Impact of Covid-19	The impact of Covid-19 on the audit of the financial statements includes increased review of management's assumptions and estimates; Increased work on the Council's financial resilience assessment, and remote working - we have needed to put additional resources into the audit.	16,500
Total		**24,850**
PF - Impact of Covid-19	As detailed above for the Pension Fund audit also.	4,690
Other PF adjustments to scale fee	FRC Challenge, Valuation of Level 3 investments, Valuation of Directly held property and additional covid-19 significant risk.	5,000
Total - PF		**9,690**

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services - Agreed upon procedures report – Teachers' Pension return	6,000
Non-Audit related services	
- IAS 19 Assurance letters to other auditors	15,750
- CFO insights subscription	9,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.